



BUDGET COMMITTEE



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**Senator Gregg's Senate Floor Remarks on the Urgent Need
To Take Action on Entitlement Reform
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(unofficial transcript)**

Madam President, I rise to speak about the dire situation of our fiscal house as a federal government, which has been confirmed and reinforced by the recent reports from the Social Security and Medicare Trustees. You know, we are in big trouble as a nation because of the amount of debt that we're running up. This President has proposed a budget which doubles the debt in five years, triples it in ten years; he has proposed a budget which runs, on the average, \$1 trillion of deficit every year for the next ten years. That's four to five percent of G.D.P. in deficit. In fact this year the deficit will be almost \$2 trillion and it'll be almost 13% of G.D.P.

Those are staggering numbers, numbers we have never seen as a nation, except during World War II, when we were fighting for our survival. And these numbers add up to debt which is unsustainable and which cannot possibly be repaid by our children and, therefore, will create an atmosphere for our children and our children's children where our nation will not be as prosperous or as strong as it was when our nation was passed to our stewardship.

And these problems are only massively compounded by a report which came out yesterday from the Social Security trustees. Because they pointed out that the Medicare Trust Fund is going into a negative cash-flow situation and the Social Security Trust Fund will soon go into a negative cash-flow situation. What does that mean?

Well, for the last 15 or 20 years we basically have been financing our government by borrowing from the piggy bank of Social security and using that money to operate the day-to-day costs of the federal government. What the Trustees are telling us is that the piggy bank is broken. It's been smashed. It no longer has any money in it. It's not going to take money in that exceeds the money it has to pay out. And, in fact, we're going to have to borrow money now in order to pay Social Security benefits beginning in the year 2016 and Medicare benefits right now, this year.

This chart here reflects the seriousness of the situation. If you just take these basic mandatory programs -- Social Security, Medicare, and Medicaid -- the cost of those

programs is escalating on a steep, upward slope so that by about 2025-2030, these three programs alone will absorb all the money that the federal government has traditionally spent on all the federal programs -- 20% of G.D.P. -- and then they go up. And it's projected that towards the middle of this century, Social Security, Medicare and Medicaid will literally bankrupt our nation by themselves.

That says nothing about the basic underlying budget which is expanding the debt of this country so dramatically. Under President Obama's budget proposal, because of this spending in these three accounts -- Social Security, Medicare and Medicaid -- and because of the new spending that the President has proposed in all sorts of other accounts -- massive expansions in the size of government -- the debt of the federal government just goes up and up and up to the point where it will represent 80% of the gross domestic product at the end of President Obama's budget.

What does that mean, 80% of the gross domestic product? Well, today the federal debt is about 40% of the gross domestic product. It's down here. But after the spending spree of President Obama and the Democratic Congress, it'll be 80% of the gross domestic product. And basically we will be putting ourselves in a position where we can't get out of the hole that we're digging. You know, usually when you're digging a hole and you're fairly deep in the hole -- we are fairly deep in the hole already, by the way -- you stop digging. I mean, that's the old adage. We're not going to stop digging as a government. What President Obama and the Democratic Congress are suggesting is that we dig twice as fast, so we go even further down into debt.

It is not sustainable for our kids because they're going to end up with costs and deficits which far exceed their ability to manage those costs and deficits. Just the Medicare system alone has an unfunded liability of \$37.8 trillion. And when you throw in the Social Security system on top of that, you're talking about an unfunded liability of over \$42 trillion. What are the implications of that?

Well, if you took all the taxes paid in the United States since we were formed as a nation, since we began our government and since we started to collect taxes, we've paid less in taxes than we have in obligations on those two accounts. Or if you took the net worth of every American, all our homes, all our cars, all our stock, and you added it all up, we have a debt on the books for the purposes of paying for the programs which we know already exist under Medicare and Social security, we have a debt which exceeds the net worth of the entire country. That is the definition of bankruptcy, by the way: your debt dramatically exceeds your assets.

And, in fact, by the tenth year of this budget, as proposed by president Obama and passed here by the Democratic Senate -- without any Republican votes, thank goodness, because it was such an irresponsible budget -- the interest on the federal debt alone will be \$850 billion. Try to put that in context. The interest on the debt will actually exceed what we spend on national defense. It will exceed by a factor of four or five what we spend on education, what we spend on transportation.

So we will be putting more money into paying Interest -- and, by the way, who do we pay this interest to? The Chinese, the Japanese, the Southeast Asian countries, the Arab oil-producing countries. We will be paying more interest to those nations, more American hard-earned dollars will go to those nations to pay interest on our debt than we will have available or we will be able to spend on our own national defense. Does that make sense? No, it doesn't make any sense at all. Plus it's not supportable.

There are only two things that can happen to our nation when you run the debt up in the manner in which the budget was proposed here, and you look at the debt and the serious financial situation that Social Security and Medicare are in...there are basically only two things, unless we take action now on controlling spending, that can occur. One is you devalue the dollar and you inflate the currency. That's a combined thing. You basically take the value of the American currency and you inflate its value. Well, that's the cruelest tax of all. That says that people who have savings find that their savings is worth less the next day because of inflation. It says the people who want to buy things to have a better life can buy less because of inflation. Inflation is a massive tax on working Americans. But that's one way you get out of this debt, you inflate it.

Of course, the practical effect of that is that people won't want to buy your debt. If they know inflation is coming, they're not going to buy your debt. Why would they? Why would they buy \$1 billion worth of American debt knowing that you're going to pay them back in inflated dollars? If they're going to give you \$1 billion or lend you \$1 billion, they're going to require much higher interest rates than we presently have to pay, because they're going to have to anticipate inflation and the fact that the value of dollar will be reduced and that that value of that debt that they just bought will be worth less. So inflation has a lot of very bad ramifications. But how else do you get out from underneath a debt like this?

Well, the other way is to massively increase taxes on all Americans. Now, this euphemism around here that we're just going to tax the rich; you can't do it by just taxing the rich. Now, the other side of the aisle claims they're going to tax the rich. They're going to raise the tax rate on high-income Americans from 35% up to an effective rate, as proposed by the President, of about 41%, 42%. I would point out that these high-income Americans are for a large part the majority of the job producers in America. Most of the jobs in America are produced today by small businesses. Almost all of those small businesses would be hit with this additional tax rate.

So what happens to the small businesses? What happens to that mom-and-pop activity in New Hampshire which is suddenly starting to grow and they've got ten employees. They want to add 12 or 15 more. They can't do it. Why? Because they've got to take their money and put it towards paying taxes. They're not going to be able to put it towards adding more jobs, which would be much more beneficial to us than having their money come to Washington and have a group in Washington decide how to spend it. It would be much more effectively spent by small businessmen.

It is not like they're under taxed. A 34% tax rate on a small business means they're taxed more than any other people in the industrialized world for small business activity. Most corporate taxes and business taxes in the world average out around 20%, 19%, 15%. The United States, It's 35% if you're an individual or a subchapter "S" corporation. Now they're talking about taking it up to 41% under the proposal from the other side of the aisle. That's their plan for the taxes.

Let's accept the tax-the-rich argument. How much money do they get from that? Well, not very much compared to what they're talking about spending. The other side of the aisle is proposing increasing spending by over a trillion dollars on the discretionary side and over a trillion dollars on the entitlement side. The revenues from this tax increase are about one-fifth of that spending increase, maximum. And that presumes that wealthy people aren't going to be smart enough to go out and figure out ways to avoid taxes, which is what people usually do who have accountants when their tax rates go up too much. They tend to go out and figure out a way to invest that they don't have to pay their taxes at quite such a high level, legally, by investing in things which are tax avoidance vehicles. Not a very efficient way to manage an economy.

You'd rather have people invest for the purposes of getting a maximum return because that creates the maximum productivity in the society which creates the most jobs, but as you raise tax rates, what happens is people go out to invest not to create jobs and create return, they go out to invest to avoid taxes, which is a very inefficient way to use dollars.

But let's accept the theory that this is all acceptable, that we should just tax the rich because it's a good political statement and it makes for a nice TV ad and that will address the problem now. But it doesn't. We still have a debt curve that goes up essentially on the same pathway, because this pathway of debt assumes this tax increase on the wealthy. So what's the other option besides inflating the economy? It's to tax everyone at very dramatic rates. Very, very dramatic rates.

And what's the practical effect of that? Well, if you tax all working Americans in order to pay off this debt -- and remember what this debt's being used for. It's being used to expand the size of the government. The President's been forthright about this. He says, 'I believe that by dramatically growing the size of the government' -- I heard this today on N.P.R. which I found very appropriate since they happen to be a government-funded entity -- 'you can create prosperity.' That's the argument of the President. It's the argument of N.P.R.'s commentator today.

And I'm thinking to myself, 'Wow, explain this one to me. You take the debt of the United States up to 80% of G.D.P., you run deficits of a trillion dollars a year for the next ten years and you're going to create prosperity?' You're not going to create prosperity. You're going to permanently increase the size of government and maybe you'll create some jobs, but in the end what you'll get is a massive expansion in debt, a massive expansion in deficit and a commensurate increase in inflation or in taxes which have a huge dampening effect on prosperity. You don't create prosperity by creating inflation.

You don't create prosperity by creating a nonproductive workplace where capital is being invested not for the purposes of efficiency but for the purposes of avoiding taxes.

So basically what you're absolutely guaranteeing when you're running up this type of debt is you're not going to get prosperity, you're going to get a weaker economy, a less prosperous country and a country that isn't as strong. And these numbers that came out yesterday from the Social Security and Medicare Trustees only highlighted in a most devastating way how significant our problem is. And if we fail to start to address this issue, if we continue on this path of just spending money as if there's no tomorrow, well there will be no tomorrow for our children. Because the burdens will be so high and so extreme from all the costs of government and especially from the burdens of these entitlement programs.

So what's the answer? Well, to begin with, yes, we're in a tough fiscal time right now and we have to spend money that we don't want to spend in order to try to get things going, but let's acknowledge the fact that this recession's not going to go on forever. In fact, hopefully there's some light at the end of the tunnel here and there's some glimmers of things turning around and we all hope that that's going to occur. Well, as we move out of this recession, we shouldn't continue to spend as if we're in a recession. Rather, we should start to draw back on the spending that we put into the system, we should start to take some of that spending back. All of these spending programs that came in the stimulus should have been sunsetted so that these programs end after the recession is over, a year and a half from now or maybe a year from now.

But that's not the plan. The plan is to build all this spending into the baseline and have this spending go on for as far as the eye can see. And that's why the President's budget expects to have a trillion-dollar deficit for as far as the eye can see, or at least as far as the budget window allows -- ten years. And then after retrenching on the spending that's being proposed just in the short term and saying, let's stop this spending when we get out of the recession, let's start curtailing the spending, let's go back to the former spending patterns of the government -- which weren't very good to begin with but at least were a lot better than what's being proposed now -- let's put in some strict fiscal discipline. Let's freeze, for example, discretionary spending for one or two years after we move past this recession. In other words, in the year 2010 -- 2013.

Let's also at the same time look at these entitlement accounts and see how we can put them on a more sustainable path. And that means making some courageous decisions around here. And we've proposed, myself and Senator Conrad have proposed, a way to accomplish that because we know the political system doesn't inherently allow people, members of the government who have to run for re-election to make the tough decisions on these programs that affect everyone. We know that. We know it's very hard for somebody to stand up in a town meeting and say 'oh, we're going to raise the minimum retirement age on Social Security; we're going to minimize the COLA on Social Security.' That's not possible in a political climate and we accept that.

So why not set up a procedure which drives a good policy which we can vote on and everybody can sort of hold hands and go at the issue together? And that's what Senator Conrad and I have suggested, called the Conrad-Gregg commission, except in New Hampshire where we call it the Gregg-Conrad commission. And essentially what it does is set up a process where a group of people who are very knowledgeable -- with a majority, by the way, from the Majority party -- sit down and figure out the best ways to try to bend this curve a little bit -- and hopefully more than a little bit -- see, this is the current baseline, under the red one. Hopefully get it back to current law baseline. And get under control the rate of growth of these entitlements so they do become at least, if not immediately affordable, over a long period, more affordable. And we do this on a fast-track and we do it without amendments and we require an up-or-down vote and we require a supermajority so that everybody's protected, everybody knows it's fair and it gets to the underlying issue, which is how you control the rate of growth of spending.

You know, I recognize that I've been sort of Sisyphus, pushing a rock up a hill on this issue and I haven't gotten to the top of the hill yet. But I'm not alone on this concern. The Chairmen of the Budget Committees in both the House and the Senate have both said that these out-year debt patterns of their budget are unsustainable. Those weren't my words. The Director of O.M.B., the President's Office of Management and Budget, has said these out-year numbers are unsustainable. The Secretary of Treasury has said these out-year numbers are unsustainable.

You cannot have a debt to G.D.P. ratio of 80%. You cannot have deficits of 4% to 5% annually. You just can't do it and have a sustainable government. You end up turning into a banana republic if you continue on this path, where you basically self-implode through inflation or excessive taxes. The international community is starting to comment on this. The head of the Chinese Federal Reserve -- it's a different title but the same position -- has raised his concerns about it, as has the Premier of China. And after all, they're our biggest lender.

That's like if the person who lent you the money for your credit card comes to you and says, hey, I'm a little concerned about the amount of credit you've run up here. You've got to listen to that person because that's the person who's going to lend you the next dollar. And regrettably, we're in that situation, whether we like it or not. So this is not a Pollyanna-ish exercise, this is a real discussion about the real problems we confront as a country, and the Trustees' report should be listened to.

Now, there was one specific suggestion in the Trustees' report that we as a Congress are supposed to do. The Trustees' report says that when it is projected that the Medicare Trust Fund will have to be supported with more than 45% of the general funds of the government -- in other words, the Medicare Trust Fund is supposed to be self-insured. Never has been but it's supposed to be. It's not supposed to use general funds, which is general taxation, to pay for it.

And so five years or so ago, we put in this language that says if over 45% of the support for the trust fund comes from the general fund -- it's no longer an insurance event, so

people who are paying into their health insurance no longer are supporting anything more than 55% of the costs of the fund -- at that point, the Trustees notify the Congress and the President that this is going to occur within the next seven years and we are supposed to, by our own statute, receive from the President directions as to how to bring the spending or the cost of the Trust Fund down so that the general fund will not be invaded by more than 45%.

Now, President Bush took this to heart and he sent up two proposals to accomplish that, both of which were fairly reasonable. The first one was that people who take part in the Part-D Drug Program should have to pay a percentage of their premium for that program if they're well-off. In other words, people working in a restaurant in New Hampshire today are fully subsidizing the Part-D premium of, for example, Warren Buffett. That makes no sense does, it? So if you have a fair amount of income, you should pay a larger -- or some percentage, at least, of your Part-D premium. President Bush suggested that.

Another approach he used was there's a lot of savings occurring in the health care industry today based mostly on technology advances and we would like to share the rewards of those savings with the people who are getting them. Today 100% of the savings goes to the health care industry. President Bush suggested that we take half of those savings and put it back into the Medicare Trust Fund. Very reasonable proposals, both of those. They were both rejected by the Democratic Congress.

Now it's President Obama's turn to send us some ideas for how we keep the cost of the Trust Fund of Medicare to the general fund below 45%. But what has happened? Total silence. Nothing's been sent up. No proposal has been sent up. No endorsement of any proposals have been sent up. Interestingly enough, and to his credit, President Obama did include in his budget the same proposal on Part-D that President Bush proposed, which was that wealthy people should pay some percentage of the cost of their premium. And so you might think that they would send that proposal up as a free-standing initiative, at least that one, as a way to address some of the costs which are being generated and being borne by the general fund.

But we haven't heard that. It is ironic, of course, that President Obama has that proposal in his budget and is not willing to send it up. It may be that because the Congress under Democratic leadership rejected this idea two years ago that they feel it will be rejected again, but let's at least take a run at it because it's a good idea and it's very appropriate, and should be done now, along with some other ideas, because we have this responsibility under our own rules -- they're our rules, we set them up. We said if the general fund is going to be invaded by more than 45%, we have to come up with some way to correct that.

So we ought to at least live by that. So there are some ideas as to where we should go from here. Rather than allowing this debt to become so excessive that, for example, it got so high that we become so irresponsible as a nation in the area of debt that we couldn't even get in the European Union. That's an irony, isn't it? When this debt gets up to over 60% of G.D.P. -- which it will fairly early here, probably within the next two years -- at

that point, the United States would no longer qualify for entrance into the European Union. Because those industrialized states have said that level of debt is irresponsible. 'A government that has that level of debt is so irresponsible that we do not want you in the European Union.' In other words, Latvia or Lithuania could get in the European Union but the United States couldn't. Not that we're going to apply but that's a pretty good standard so we need to take some action and we need to listen closely to the Trustees' report because it is telling us we are in deep trouble.

Thank you, Madam President. I yield the floor.